

Message Text

UNCLASSIFIED

PAGE 01 MANAMA 01233 01 OF 02 010721Z
ACTION NEA-11

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-01
INR-10 NSAE-00 ICA-20 TRSE-00 XMB-04 OPIC-06
SP-02 LAB-04 SIL-01 OMB-01 PA-02 DOE-15 SOE-02
/093 W

-----033652 010747Z /11

R 311025Z MAY 78
FM AMEMBASSY MANAMA
TO SECSTATE WASHDC 6226

UNCLAS SECTION 1 OF 2 MANAMA 1233

E.O. 11652: N/A
TAGS: EINV ECRP BA
SUBJECT: UPDATE OF INVESTMENT CLIMATE REPORT

REF: A) 77 STATE 244738, B) STATE 77432

FOLLOWING IS INVESTMENT CLIMATE REPORT FOR BAHRAIN:

1. THE CLIMATE FOR FOREIGN INVESTMENT IN BAHRAIN IS SOMEWHAT
UNIQUE IN THAT THE GOVERNMENT ENCOURAGES INVESTMENT IN ITS
PLANNED ROLE AS A REGIONAL SERVICE CENTER, NEITHER
ENCOURAGES NOR NEEDS TRADITIONAL INDUSTRIAL INVESTMENT,
AND WILL CAREFULLY CONSIDER ON A CASE-BY-CASE BASIS, PROPOSALS
FOR SMALL SCALE INDUSTRIAL OR BUSINESS INVESTMENT IF NEW
TECHNOLOGY OR AN EXPORT POTENTIAL IS PRESENT.

2. BAHRAIN'S MAJOR DEVELOPMENT DRIVE AT PRESENT IS TOWARD
A ROLE AS A REGIONAL SERVICE CENTER FOR THE MUCH LARGER
AND RICHER NEIGHBORING COUNTRIF. THIS ROLE IS DICTATED
BY THE LACK OF NATURAL RESOURCES EXCEPT FOR OIL WHICH WILL
BE GONE WITHIN 20 YEARS. BAHRAIN ALSO LACKS A SIGNIFICANT
POPULATION BASE FOR A DOMESTIC MARKET OR ANY UNIQUE AND
LONG-TERM INDUSTRIAL EXPERIENCE. IT IS HOWEVER UNIQUELY
EQUIPPED IN THIS REGION FOR THE ROLE AS A SERVICE CENTER.
IT HAS A LONG HISTORY AS A REGIONAL TRADING NATION--GOING
UNCLASSIFIED

UNCLASSIFIED

PAGE 02 MANAMA 01233 01 OF 02 010721Z

BACK TO A POSITION AS A WEALTHY CENTRAL DEPOT IN TRADE BETWEEN
MESAPOTAMIA AND THE INDUS CIVILIZATION IN WHAT IS NOW
PAKISTAN. BAHRAIN WITH ITS REFINERY HAS THE EARLIEST
INDUSTRIAL EXPERIENCE IN THIS REGION AND, WITH ITS
SATELLITE STATION HAD THE FIRST MODERN COMMUNICATIONS TIE
WITH THE WESTERN WORLD. IT HAS BECOME A CENTRAL STOP FOR
MOST OF THE EUROPE TO ASIA AIR TRAFFIC. ITS OPEN TRADING

TRADITION HAS RESULTED IN A MORE LIBERAL OUTLOOK IN WHICH PEOPLES FROM OTHER CULTURES FIND IT MORE COMFORTABLE TO LIVE THAN IN NEIGHBORING COUNTRIES. AS BAHRAIN IS NOT AND WILL NOT BECOME A THREAT TO THEM, NEIGHBORING COUNTRIES DO NOT MIND DOING BUSINESS THROUGH THE COUNTRY.

3. IN TERMS OF INVESTMENT IN HEAVY INDUSTRY, BAHRAIN DOES NOT ENCOURAGE FOREIGN INVESTMENT TO THE EXTENT THAT MANY OTHER DEVELOPING COUNTRIES DO. WITH A MAJOR OIL REFINERY, AN ALUMINUM REFINERY, A NEW LARGE DRYDOCK AND SHIP REPAIR FACILITY AND A CONTRACT LET THIS YEAR FOR A \$90 MILLION GAS GATHERING AND PROCESSING PROJECT, BAHRAIN HAS JUST ABOUT REACHED THE LIMIT OF ITS RESOURCES AND MANPOWER FOR ANY LARGE INDUSTRIAL PROJECTS. WHILE THE LAST TWO INDUSTRIES NOTED ABOVE ARE FINANCED AND OWNED THROUGH THE ORGANIZATION OF ARAB PETROLEUM EXPORTING COUNTRIES, THE FIRST TWO HAD MAJOR FOREIGN INVESTMENT COMPONENTS WHICH ARE BEING REDUCED THROUGH NEGOTIATION AND GOVERNMENT PURCHASE. THIS REFLECTS THE PRAGMATIC BAHRAINI ATTITUDE TOWARD INVESTMENT WHICH IS THAT FOREIGN INVESTMENT WILL BE WELCOME AND TREATED IN A FAIR MANNER WHEN NEEDED BUT WHEN THE OPPORTUNITY ARISES BAHRAINI PRIVATE OR GOVERNMENTAL OWNERSHIP WILL BE PREFERRED. PRESENT POLICY, AND LAW, ON INDUSTRIAL INVESTMENT IS THAT 51 PER CENT EQUITY MUST BE BAHRAINI. THE GOVERNMENT THROUGH THE MINISTRY OF DEVELOPMENT AND INDUSTRIES HAS A PROGRAM TO INVESTIGATE IDEAS AND EVALUATE

UNCLASSIFIED

UNCLASSIFIED

PAGE 03 MANAMA 01233 01 OF 02 010721Z

PROPOSALS FOR SMALL SCALE, NON-LABOR-INTENSIVE INDUSTRIES WHICH WOULD FIND SOME MARKET IN BAHRAIN AND WOULD MESH WITH THE INDUSTRIAL DEVELOPMENT PLANS OF NEIGHBORING COUNTRIES. THE MINISTRY WORKS WITH A COMMITTEE OF PRIVATE ENTREPRENEURS TO CONDUCT PRE-FEASIBILITY STUDIES AND TO LOCATE POSSIBLE FOREIGN PARTNERS. THE GOVERNMENT WILL, IF NECESSARY TO MOVE A LIKELY PROJECT TO COMPLETION, TAKE SMALL EQUITY POSITIONS.

4. BAHRAIN IS AN OPEN ECONOMY WITH NO LEGAL OBSTACLES TO EFFECTIVE BUSINESS OPERATIONS AND A FEW SPECIFIC AIDS. THERE IS NO PERSONAL OR CORPORATE TAXATION, NO RESTRICTIONS ON REPATRIATION OF PROFITS AND NO DISCRIMINATORY TARIFF POLICIES. BAHRAIN'S TARIFF STRUCTURE IS VERY SIMPLE. BASIC FOOD ITEMS ARE DUTY FREE WITH MOST OTHER FOODS AT 5 PER CENT. DUTIES OF 70 PER CENT ARE LEVIED ON LIQUOR, 15 PER CENT ON CIGARETTES AND ALL OTHER ITEMS NOT INCLUDED ABOVE ARE DUTIABLE AT 10 PER CENT. ARRANGEMENTS CAN BE MADE FOR DUTY FREE ENTRY OF PRODUCTS FOR USE IN EXPORT INDUSTRIES AND THE GOVERNMENT HAS ESTABLISHED DUTY-FREE AREAS FOR INDUSTRY, DISTRIBUTION AND WAREHOUSING.

5. THE GOVERNMENT PERMITS A NUMBER OF TYPES OF ORGANIZATIONAL STRUCTURE FOR FOREIGN FIRMS. THOSE WISHING TO ENTER BAHRAIN AS A DIRECT BRANCH OF WELL-KNOWN FOREIGN PARENTS TO REPRESENT THE PARENT'S INTERESTS HERE, INCLUDING MARKETING OFFHICSS, MAY DO SO WITHOUT BAHRAINI OWNERSHIP OR SPONSORHSIP. FIRMS PLANNING TO ENTER MORE FULLY INTO BAHRAIN DOMESTIC COMMERCE DO SO UNDER SPONSORHSIP OF A BAHRAINI FIRM AND THESE SPONSORSHIP ARRANGEMENTS VARY WITH EACH SECTOR. MANY BAHRAINI FIRMS HAVE EXTENSIVE EXPERIENCE AND HAVE DEVELOPED/ESTABLISHED ACCEPTABLE SPONSORSHIP PATTERNS. AS NOTED ABOVE, FOREIGN FIRMS INVOLVED IN DOMESTIC INDUSTRY ARE INCORPORATED IN BAHRAIN WITH 51 PER CENT BAHRAINI OWNERSHIP. THE NEWEST FORMULA FOR FOREIGN INVESTMENT IN BAHRAIN IS THE "EXEMPT" ((OFFSHORE) COMPANIES WFICH WERE ESTABLISHED BY AN AMENDMENT UNCLASSIFIED

UNCLASSIFIED

PAGE 04 MANAMA 01233 01 OF 02 010721Z

TO THE COMPANIES ACT IN NOVEMBER 1977. THIS PERMITS COMPANIES TO ORGANIZE IN BAHAIN FOR OFFSHORE ACTIVITIES WITH EXEMPTIONIFORM THN BAHRAINI OWNERSHIP REQUIREMENT AND SOME OTHER MINOR REPORTING REQUIREMENTS. USE OF THIS AMENDMENT ALONG WITH THE DUTY-FREE AREAS WILL PERMIT A WIDE RANGE OF ACTIVITIES LK BAHRAIN WITH FULL OWNERSHIP AND/OR CONTROL RETAINED BY THE PARENT.

UNCLASSIFIED

NNN

UNCLASSIFIED

PAGE 01 MANAMA 01233 02 OF 02 010744Z
ACTION NEA-11

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-08 FRB-01
INR-10 NSAE-00 ICA-20 TRSE-00 XMB-04 OPIC-06
SP-02 LAB-04 SIL-01 OMB-01 PA-02 DOE-15 SOE-02
/093 W

-----033792 010746Z /11

R 311025Z MAY 78
FM AMEMBASSY MANAMA
TO SECSTATE WASHDC 6227

UNCLAS SECTION 2 OF 2 MANAMA 1233

BAHRAIN'S OFFSHORE BANKING LAW HAS NOW HAD ALMOST TWO YEARS IN OPERATION AND MUST BE CLASSED AS FULLY

SUCCESSFUL. THE BAHRAIN MONETARY AGENCY, WHICH ADMINISTERS THIS PROGRAM, CAREFULLY ENCOURAGED MAJOR WORLD BANKS, AND DISCOURAGED QUESTIONABLE BANKS, TO ENTER THIS MARKET. THE FORTY MAJOR BANKS NOW HERE HOLD ASSETS CLOSE IN VALUE TO THE OLDER SINGAPORE OFF-SHORE COMMUNITY.

6. MAJOR LEGISLATION:

A. COMMERCIAL COMPANIES LAW (1975)

B. THE COMMERCIAL AGENCIES AND THEIR ORGANIZATION

C. MINISTERIAL ORDER NO. 25 (1977) PERMITTING THE ESTABLISHMENT OF JOINT STOCK COMPANIES AND EXEMPTING THEM FROM THE PROVISIONS OF THE COMMERCIAL COMPANIES LAW.

7. RESPONSIBLE BAHRAIN AUTHORITIES:

ALL COMMERCIAL AND AGENCY REGISTRATIONS ARE PROCESSED BY THE MINISTRY OF COMMERCE AND AGRICULTURE. INQUIREIES SHOULD BE SENT TO H.E. HABIB AHMED KASSIM, MINISTER, OR MR. HASSAL ALI AL-NUSUF, ASSISTANT UNDERSECRETARY FOR COMMERCE AFFAIRS, OR MR. AHMED JASSIM HUBAIL, DIRECTOR OF COMMRCE AND COMPANIES AFFAIRS, MINISTRY OF COMMERCE AND AGRICULTURE, P O BOX 251, MANAMA, BAHRAIN. INQUIRIES CONCERNING REGISTRATIONS IN THE FINANCIAL SECTOR SHOULD BE ADDRESSED UNCLASSIFIED

UNCLASSIFIED

PAGE 02 MANAMA 01233 02 OF 02 010744Z

TO MR. ABDULLAH SAIFWU DIRECTOR GENERAL, BAHRAIN MONETARY AGENCY, P O BOX 27, MANAMA, BAHRAIN.

8. AMERICAN INVESTMENT IN BAHRAIN:

THERE ARE NO STATISTICS NOR BASIS FOR ESTIMATES AVAILABLE

ON THE EXTENT OF AMERICAN INVESTMENT IN BAHRAIN. THE LARGEST AMERICAN INVESTMENT IS THE 260,000 BPD OIL REFINERY (BAPCO) WHICH IS OWNED BY CALTEX. ALTHOUGH THE GOVERNMENT IS IN THE FINAL STAGES OF NEGOTIATING TOTAL ACQUISITION OF THE CALTEX INTEREST IN LOCAL PETROLEUM MARKETING AND IN OWNERSHIP OF THE GAS AND OIL FIRRELDS, CALTEX WILL RETAIN OWNERSHIP OF TME REFINERY. KAISER ALUMINUM OWNS 17 PER CENT OF THE 120,000 TONS PER YEAR ALUMINUM REFINERY) 2(ALBA). BROWN AND ROOT OWN 49 PER CENT IN JOINT VENTURE WITH BAHRAINI INTERESTS, OF A LARGE WHARF AND ASSEMBLY YARD IN BAHRAIN WHICH WAS ONCE USED IN THE ASSEMBLY OF LARGE OFF-SHORE OIL RIGS AND MORE RECENTLY HAS BEEN USED TO SUPPORT A WIDE VARIETY OF CONSTRUCTION PROJECTS IN THIS REGION. GENERAL ELECTRIC HAS 49 PER CENT OF A GAS TURBINE REPAIR FACILITY IN MANAMA. SEVERAL FIRMS IN THE OIL SERVICE INDUSTRY HAVE SIZABLE INVESTMENTS IN WHARVES, WAREHOUSES, TUGS AND SPECIALTY IN SHIPS IN BAHRAIN. NINE AMERICAN BANKS INCLUDING 8 OF THE LARGEST 10 IN AMERICA, OPERATE OFFSHORE BANKS AND/OR FULL COMMERCIAL BANKS IN BAHRAIN AND A TENTH HAS A REPRESENTATIVE OFFICE. IN ADDITION TO THE ABOVE THER

ARE ABOUT 55 OTHER AMERICAN FIRMS FROM ALL SECTORS WITH
OFFICES IN BAHRAIN.
CLUVERIUS

UNCLASSIFIED

NNN

Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: INVESTMENT CLIMATE, REPORTS
Control Number: n/a
Copy: SINGLE
Draft Date: 31 may 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 jan 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978MANAMA01233
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D780228-1172
Format: TEL
From: MANAMA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t1978054/aaaaacoh.tel
Line Count: 227
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 3b83179a-c288-dd11-92da-001cc4696bcc
Office: ACTION NEA
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: 77 STATE 244738, 78 STATE 77432
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 29 mar 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: N/A
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2634584
Secure: OPEN
Status: NATIVE
Subject: UPDATE OF INVESTMENT CLIMATE REPORT
TAGS: EINV, ECRP, BA
To: STATE
Type: TE
vdkgvwkey: odhc://SAS/SAS.dbo.SAS_Docs/3b83179a-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014